

MUSKEGON HEIGHTS HOUSING COMMISSION  
MUSKEGON HEIGHTS, MICHIGAN

FINANCIAL STATEMENTS  
FOR THE YEAR ENDED MARCH 31, 2005  
AND  
REPORTS ON INTERNAL CONTROL AND  
COMPLIANCE

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Muskegon Heights Housing Commission</b>	County <b>Muskegon</b>
Audit Date <b>3/31/05</b>	Opinion Date <b>11/4/05</b>	Date Accountant Report Submitted to State: <b>12/3/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) <b>Barry E. Gaudette, CPA, PC</b>			
Street Address <b>1107 E. Eighth Street</b>	City <b>Traverse City</b>	State <b>MI</b>	ZIP <b>49686</b>
Accountant Signature <i>Barry E. Gaudette</i>		Date <b>12/3/05</b>	

MUSKEGON HEIGHTS HOUSING COMMISSION  
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## INTRODUCTION

***Independent Auditor's Report***

Board of Commissioners  
Muskegon Heights Housing Commission  
Muskegon Heights, Michigan

I have audited the accompanying financial statements of the business-type activities of the Muskegon Heights Housing Commission, Michigan, a component unit of the City of Muskegon Heights, as of and for the year ended March 31, 2005, which collectively comprise the Housing Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Muskegon Heights Housing Commission, Michigan, as of March 31, 2005, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 6(D), the Housing Commission has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as amended and interpreted as of March 31, 2005.

Muskegon Heights Housing Commission  
Independent Auditor's Report  
Page Two

In accordance with *Government Auditing Standards*, I have also issued my report dated November 4, 2005, on my consideration of Muskegon Heights Housing Commission, Michigan's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of my audit.

The management's discussion and analysis comparison information on pages 3 through 6, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that comprise Muskegon Heights Housing Commission, Michigan's basic financial statements. The accompanying financial data schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Housing Commission. The accompanying schedule of expenditures of federal awards, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Muskegon Heights Housing Commission, Michigan. The combining financial statements, schedule of expenditures of federal awards, and the financial data schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Barry E. Naudette, CPA, PC*

November 4, 2005

MUSKEGON HEIGHTS HOUSING COMMISSION  
MUSKEGON HEIGHTS, MICHIGAN  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)**  
March 31, 2005

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The Muskegon Heights Housing Commission, created in 1941, by the City of Muskegon Heights provides housing to meet the community's needs for affordable low-income housing. As management of the Housing Commission, we offer readers this narrative overview and analysis of the financial activities of the Housing Commission for the fiscal year ended March 31, 2005. We encourage readers to consider the information presented here in conjunction with the Housing Commission's financial statements.

**Financial Highlights**

The financial statements for Muskegon Heights Housing Commission consists of three programs. The first is owned housing, consisting of 348 units of public housing, the second is the capital funding program, and the third is the housing choice voucher program consisting of 50 qualifying low-income residents for rental housing.

Muskegon Heights Housing Commission had total revenues of \$2,656,098 that includes \$682,140 in rental payments and \$1,870,757 in federal assistance. Total revenues increased by \$283,440 from the prior year, in part, because of \$297,931 more received in operating grants from the federal government compared to the prior year. Total operating expenses were \$2,808,037, that includes \$532,033 in administrative expenses, \$395,838 in utilities, \$668,362 in ordinary maintenance and operation, \$203,356 in housing assistance payments, and \$773,124 in depreciation expense. The operating expenses increased by \$279,831, in part, because of increased maintenance expenses and more Housing Assistance Payments to landlords.

The assets of the Housing Commission exceeded its liabilities at the close of the most recent fiscal year by \$7,032,549. The Housing Commission's total net assets decreased by \$151,939 from the prior year. The decrease can be attributed, in part, to the maintenance costs increasing this fiscal year.

Total assets of the Housing Commission were \$7,482,507, of which \$336,991 consisted of current assets and \$440,752 of current liabilities. There was a net decrease in total assets of \$345,408 from the prior year. The decrease is due, in part, because of the net decrease of \$99,836 in property and equipment and a cash flows decrease of \$60,562.

## Financial Highlights (continued)

### 2005 Financial Audit Economic Analysis:

1. In response to an analysis of the Housing Commission's overall financial position and results of operations to assess whether financial position has improved or deteriorated during the year, including reasons for significant changes from the prior year and important economic factors that significantly affected operating results.

Answer: The Muskegon Heights Housing Commission is a TROUBLED public housing authority that has had that status since QHWRA was enacted and the problems existed prior to the 1998 Regulation. Fiscal Year 2005 was the year our Section 8 Voucher Program concluded its 2 year climb from Troubled status to High Performer status. HUD overpaid Section 8 subsidy's again in 2003 and the recapturing/repayment of those funds started in 2004 which created some cash flow difficulties. Twenty-five (25) Evictions due to non-compliance with HUD Community Service guidelines created a serious unexpected drain of operating funds. There was a total increase in units turned over of 51% that was unprecedented due to a stricter enforcement of the dwelling lease. These factors combined with a 29% unemployment rate significantly affected the operations bottom line.

2. A description of significant capital assets and long-term debt activity, including a discussion of commitments made for capital expenditures, changes in credit ratings, and debt limitations that may affect the financing of planned facilities or services.

Answer: The Muskegon Heights Housing Commission was able to obtain a \$1,400,000 loan and enter into an Energy Performance Contract that will lower excessive use of utilities as residents will begin paying for utilities used over their allowance. Utility conservation training for residents will be scheduled after the work is completed. Improvements include new entry doors, new steel screen doors; insulating the roof eaves, water efficient toilets, sink faucet aerators and utility use check meters.

Capital Fund dollars have been used to remodel 50 of the 340 kitchens that are 40+ years old, improve exterior lighting, hardwired smoke detectors, steel screen doors, concrete steps, crosswalks, gazebo, block 2 intersections purchase new kitchen appliances. Modernization work designed to improve living conditions so as to attract low income working families. These upgrades have also increased the value of our properties, while making them more attractive to working families, hopefully allowing us to have a wider range income among our residents.



3. A description of currently known facts decisions or conditions that are expected to have a significant effect on financial position or results of operations.

Answer: Currently, the Muskegon Heights Housing Commission is attempting to hold discussions with the City of Muskegon Heights, from whom we gained our autonomy earlier this year, regarding their repaying money the Housing Commission was forced to pay for curbside garbage collection the last 13 years. The Housing Commission pays PILOT and should have received free curbside garbage collection like the other citizens of the City. In 1992, contrary to the terms of the Cooperative Agreement between the City and HUD to create the Housing Commission, the City entered into a waste hauling contract that excluded the 250 townhouse units managed by the Housing Commission. The Housing Commission paid between \$30,000 to \$35,000 for curbside garbage collection plus, PILOT since 1992. A legal opinion from HUD supports the Housing Commission position. Settling this matter will have a positive influence on the PHA's financial position by not paying for curbside garbage collection and either not paying future PILOT until we are repaid money spent by the City or the City pays a lump sum.

#### Overview of the Financial Statements

The financial statements included in this annual report are those of a special-purpose government engaged only in a business-type activity. The following statements are included:

- \* Statement of Net Assets - reports on the Housing Commission's current financial resources with capital and other assets and other liabilities.
- \* Statement of Revenues, Expenses, and Changes in Fund Net Assets - reports the Housing Commission's operating and non-operating revenues, by major source along with operating and non-operating expenses and capital contributions.
- \* Statement of Cash Flows - reports the Housing Commission's cash flows from operating, investing, capital, and non-capital activities.

### Financial Analysis of the Housing Commission

The following combined condensed balance sheets show a summary of changes for the years ended March 31, 2005 and 2004.

	<u>2005</u>	<u>2004</u>	<u>Net Change</u>
Current assets	\$ 336,991	\$ 598,903	\$ ( 261,912)
Restricted cash	16,340		16,340
Property and equipment	<u>7,129,176</u>	<u>7,229,012</u>	<u>( 99,836)</u>
Total assets	<u>\$7,482,507</u>	<u>\$7,827,915</u>	<u>\$ ( 345,408)</u>
Current liabilities	\$ 440,752	\$ 643,427	\$ ( 202,675)
Noncurrent liabilities	<u>9,206</u>		<u>9,206</u>
Total liabilities	<u>449,958</u>	<u>643,427</u>	<u>( 193,469)</u>
Net assets:			
Invested in capital assets	7,129,176	7,229,012	( 99,836)
Restricted	16,340		16,340
Unrestricted	<u>( 112,967)</u>	<u>( 44,524)</u>	<u>( 68,443)</u>
Total net assets	<u>7,032,549</u>	<u>7,184,488</u>	<u>( 151,939)</u>
Total liabilities and net assets	<u>\$7,482,507</u>	<u>\$7,827,915</u>	<u>\$ ( 345,408)</u>

**Financial Analysis of the Housing Commission (continued)**

The following table of summarizes the Statement of Revenues, Expenses and Changes in Net Assets of the Housing Commission for the years ended March 31, 2005 and 2004.

	<u>2005</u>	<u>2004</u>	<u>Net Change</u>
<b>Operating revenues:</b>			
Dwelling rent	\$ 682,140	\$ 711,027	\$ ( 28,887)
Nondwelling rent	<u>3,431</u>	<u>10</u>	<u>3,421</u>
Total operating revenues	<u>685,571</u>	<u>711,037</u>	<u>( 25,466)</u>
<b>Operating expenses:</b>			
Administration	532,033	578,219	( 46,186)
Tenant services	14,645	32,274	( 17,629)
Utilities	395,838	372,415	23,423
Ordinary maintenance and operation	668,362	533,595	134,767
General expenses	208,969	134,878	74,091
Casualty losses		( 8,936)	8,936
Extraordinary maintenance	11,710		11,710
Housing assistance payments	203,356	143,216	60,140
Depreciation	<u>773,124</u>	<u>742,545</u>	<u>30,579</u>
Total operating expenses	<u>2,808,037</u>	<u>2,528,206</u>	<u>279,831</u>
<b>Non-operating revenue:</b>			
Interest income	2,495	1,172	1,323
Operating grants	1,197,469	899,538	297,931
Capital grants	673,288	744,379	( 71,091)
Gain on sale of fixed assets	49,186		49,186
Other income	<u>48,089</u>	<u>16,532</u>	<u>31,557</u>
Total nonoperating revenue	<u>1,970,527</u>	<u>1,661,621</u>	<u>308,906</u>
<b>Change in Net Assets</b>	<u><u>\$ ( 151,939)</u></u>	<u><u>\$ ( 155,548)</u></u>	<u><u>\$ 3,609</u></u>

FINANCIAL STATEMENTS

MUSKEGON HEIGHTS HOUSING COMMISSION  
STATEMENT OF NET ASSETS  
March 31, 2005  
=====

ASSETS

Current Assets:

Cash	
Accounts receivable-HUD	\$ 157,748
Accounts receivable-tenants	29,263
Allowance for doubtful accounts	16,129
Prepaid expenses	( 8,821)
Inventories	20,314
Due from other programs	500
	<u>121,858</u>

Total Current Assets

336,991

Restricted cash

16,340

Property, Plant, and Equipment:

Land	
Buildings	1,402,031
Equipment	7,293,484
Building improvements	194,303
Construction in progress	8,423,213
	<u>1,311,140</u>
	18,624,171
	<u>(11,494,995)</u>

Less: accumulated depreciation

Net Property, Plant, and Equipment

7,129,176

Total Assets

\$ 7,482,507

See notes to financial statements

MUSKEGON HEIGHTS HOUSING COMMISSION  
STATEMENT OF NET ASSETS (CONTINUED)  
March 31, 2005  
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LIABILITIES and NET ASSETS

Current Liabilities:

Bank overdraft	\$ 191
Accounts payable	250,085
Tenant security deposit liability	38,886
Accrued expenses	26,042
Deferred revenues	362
Other current liabilities	3,328
Due to other programs	<u>121,858</u>

Total Current Liabilities 440,752

Noncurrent Liabilities:

Accrued compensated absences	<u>9,206</u>
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Total Liabilities 449,958

Net Assets:

Invested in capital assets	7,129,176
Restricted net assets	16,340
Unrestricted net assets	<u>( 112,967)</u>

Total Net Assets 7,032,549

Total Liabilities and Net Assets \$ 7,482,507

See notes to financial statements

MUSKEGON HEIGHTS HOUSING COMMISSION  
**STATEMENT OF REVENUES, EXPENSES,  
 AND CHANGES IN NET ASSETS**  
 Year Ended March 31, 2005  
 =====

**OPERATING REVENUES:**

Dwelling rent	\$ 682,140
Non-dwelling rent	<u>3,431</u>
Total operating revenues	<u>685,571</u>

**OPERATING EXPENSES:**

Administration	532,033
Tenant services	14,645
Utilities	395,838
Ordinary maintenance and operation	668,362
General expenses	208,969
Extraordinary maintenance	11,710
Housing assistance payments	203,356
Depreciation	<u>773,124</u>
Total operating expenses	<u>2,808,037</u>

Operating income(loss)	<u>(2,122,466)</u>
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**NONOPERATING REVENUES:**

Investment interest income	2,495
Other income	48,089
Gain on sale of fixed assets	49,186
Capital grants	673,288
Operating grants	<u>1,197,469</u>

Total nonoperating revenues	<u>1,970,527</u>
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Change in net assets	( 151,939)
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Prior period adjustments, equity transfers and correction of errors	( 700)
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Net assets, beginning	<u>7,185,188</u>
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Net assets, ending	<u>\$ 7,032,549</u>
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See notes to financial statements

MUSKEGON HEIGHTS HOUSING COMMISSION

STATEMENT OF CASH FLOWS

Year Ended March 31, 2005

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**CASH FLOWS FROM OPERATING ACTIVITIES:**

Cash received from dwelling and nondwelling rents	\$ 725,487
Cash payments to other suppliers of goods and services	(1,375,352)
Cash payments to employees for services	( 619,958)
Cash payments in lieu of taxes	<u>( 101,585)</u>
Net cash (used) by operating activities	<u>(1,371,408)</u>

**CASH FLOWS FROM NONCAPITAL**

**FINANCING ACTIVITIES:**

Tenant security deposits	( 3,065)
Operating grants	1,230,481
Other revenue	<u>48,089</u>
Net cash provided by noncapital financing activities	<u>1,275,505</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:**

Gain on sale of fixed assets	49,186
Capital grants	673,288
Payments for capital acquisitions	<u>( 673,288)</u>
Net cash provided by capital and related financing activities	<u>49,186</u>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Restricted cash	( 16,340)
Receipts of interest and dividends	<u>2,495</u>
Net cash (used) by investing activities	<u>( 13,845)</u>

Net increase(decrease) in cash	( 60,562)
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Cash, beginning	<u>218,310</u>
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Cash, ending	<u>\$ 157,748</u>
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MUSKEGON HEIGHTS HOUSING COMMISSION  
STATEMENT OF CASH FLOWS (CONTINUED)  
Year Ended March 31, 2005  
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Reconciliation of cash and cash equivalents  
per statement of cash flows to the balance  
sheet:

Cash and cash equivalents per balance sheet	\$ 157,748
Restricted cash	<u>16,340</u>
	<u>\$ 174,088</u>

SCHEDULE RECONCILING OPERATING INCOME  
TO NET CASH FLOW FROM OPERATING  
ACTIVITIES:

Operating income(loss)	\$(2,122,466)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:	
Depreciation	773,124
Bad debt allowance	( 30,028)
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable-tenants	39,916
Prepaid expenses	16,948
Increase (decrease) in liabilities:	
Bank overdraft	191
Accounts payable	36,145
Accrued compensated absences	( 12,626)
Accounts payable-PILOT	<u>( 72,612)</u>
Net cash (used) by operating activities	<u>\$(1,371,408)</u>

See notes to financial statements

MUSKEGON HEIGHTS HOUSING COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2005  
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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Muskegon Heights Housing Commission (the Housing Commission) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Housing Commission's accounting policies are described below.

**The Reporting Entity**

The Muskegon Heights Housing Commission is a component unit of the City of Muskegon Heights, a Michigan home rule city. The Housing Commission is a Public Housing Agency created by the City of Muskegon Heights in 1941, consisting of a five member board appointed by the City Manager and charged with the responsibility to provide and service housing to meet the community's needs for affordable low-income housing. These financial statements include all of the resources and activities of the Muskegon Heights Housing Commission over which the Housing Commission exercises operational control or which have financial significance to the Housing Commission. The Housing Commission has no component units and is not responsible for any jointly governed organizations.

**Grants and Other Intergovernmental Revenues**

The Housing Commission has entered into contracts with the U.S. Department of Housing and Urban Development (HUD). Under Contract C-3018, the Housing Commission constructed, maintains and operates 348 units of subsidized housing in the City of Muskegon Heights, Michigan. The Housing Commission manages a Housing Choice Voucher program of subsidies for 50 qualifying low-income residents for rental housing. The Housing Commission receives an annual operating subsidy determined under a performance formula for units owned by the Housing Commission and an administrative fee based on the number of households it assists under its Housing Choice Voucher program.

**Fund Financial Statements**

The Housing Commission only has *business-type activities*, which rely to a significant extent on fees and charges for support. The fund financial statements include the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows.

The Housing Commission is considered one single Enterprise Fund and does not have any governmental activities.

### **Fund Accounting**

The accounts of the Housing Commission are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, equity, revenues, and expenses. The Housing Commission's fund structure includes only proprietary funds. Under generally accepted accounting principles, proprietary funds are grouped into two broad categories - enterprise and internal service funds. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered through user charges; or (b) where laws or regulations require that the activity's costs of providing services including capital costs (such as depreciation or debt service) be recovered with fees and charges rather than with taxes and similar revenues. All of the Housing Commission's funds are operated as enterprise type proprietary funds whereby costs of services are to be recovered through user charges or subsidies from other governmental units.

### **Basis of Accounting**

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The Housing Commission's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the economic resources measurement focus, all assets and all liabilities (whether current or noncurrent) are included in the balance sheets of the individual funds. Their reported net assets are segregated into invested capital assets, restricted and unrestricted net asset components. Operating statements present increases (revenues) and decreases (expenses) in net assets.

Under the accrual basis of accounting, all revenues are recorded when earned, regardless of when received, and all expenses are recorded when a liability is created, regardless of when paid.

In accordance with Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, Muskegon Heights Housing Commission has elected to apply only those Financial Accounting Standards Board Statements issued prior to November 30, 1989 to its proprietary funds.

### Cash and Cash Equivalents

For purposes of the statement of cash flows, the Housing Commission considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

### Insurance

The premiums on all major insurance policies are charged to prepaid insurance and amortized over the life of the policy.

### Budgets and Budgetary Accounting

The Housing Commission is required under each of its HUD contracts to adopt an annual operating budget which must be approved by HUD. Budgetary data and comparison of actual and planned performance is reported directly to HUD based on specific program reporting requirements.

### Receivables

All receivables are reported at their net value, reflecting where appropriate, by the estimated portion that is expected to be uncollectible. The Housing Commission estimates the uncollectible portion of tenant rents as a percentage of gross tenant rents using prior collection experience.

### Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds. Receivables and payables arising from these transactions are classified as "due from other funds" and "due to other funds" on the statement of net assets.

### Inventory

Inventory is priced using the average cost method.

### Fixed Asset Capitalization

Fixed assets with a cost to acquire or construct of \$500 or more are capitalized and depreciated over their estimated useful lives. Depreciation is provided on a straight-line basis using the following estimate of useful lives:

Buildings	40 years
Building and land improvements	15 years
Automotive and computers	5 years
Furniture, equipment and machinery	10 years

### Net Assets

The Housing Commission classifies its net assets as follows:

- a. Invested in capital assets net of related debt represents all fixed assets acquired by the Housing Commission (both pre-FY 2001 and post-Fy 2001) reduced by accumulated depreciation and related capital projects debt issued to purchase those assets.
- b. Restricted net assets indicate the portion of net assets reserved for modernization and development.
- c. Unrestricted net assets indicate that portion of net assets which is available for use in future periods.

### Operating Revenues and Expenses

The Housing Commission includes in operating revenues resources that are derived or received from exchange transactions. Resources derived principally from non-exchange transactions are excluded from operating income. Operating expenses include the cost of providing services, excluding depreciation. Depreciation, amounts expended for capital additions and amounts expended for retirement-of-debt are excluded from operating expenses. Depreciation expense is charged to invested capital assets rather than unrestricted net assets.

### Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of management estimates. The Housing Commission uses estimates of useful lives of its fixed assets and other estimates in preparing its financial statements. Actual results may differ from the Housing Commission's estimates.

### Vacation and Sick Leave

The Housing Commission allows permanent employees to accumulate the following compensated absences:

- \* Vacation leave: An employee may accrue vacation leave up to a maximum of two(2) times the amount earned in a year. Except for the Executive Director, unused vacation time in excess of the maximum amount will be forfeited.

Any regular employee leaving the Housing Commission, except if terminated for cause, will be compensated for vacation leave credited and unused up to the date of his/her separation or resignation, provided he/she is given two(2) weeks notice of his/her intention to leave the Housing Commission.

- \* Sick leave without pay may be accumulated without limit. In the event of separation or termination, except for termination with cause, an employee is eligible to receive fifty per cent (50%) of his/her accrued sick leave, with payment made at that employee's current rate of pay.
- \* There are other various types of leave available, but none of the unused leave can be accumulated.

The amount of accumulated benefits at March 31, 2005, was \$35,248, and is recorded as a liability in the applicable funds.

#### Post Employment Benefits

The provision for pension cost is recorded on an accrual basis, and the Commission's policy is to fund pension costs as they accrue.

#### Income Taxes

As a component unit of a Michigan home rule city, the Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

#### **NOTE 2: DEPOSITS, INVESTMENTS AND CREDIT RISK**

The Housing Commission maintains cash and investment accounts in the Low Rent Program and Housing Choice Voucher funds. Landlord checks are processed through the Housing Choice Voucher account. All other receipts and disbursements are processed through the Low Rent Program accounts.

#### Deposits

At year-end, the carrying amount of the Housing Commission's deposits were \$173,913 and the bank balance was \$208,859 of which \$206,595 was covered by federal depository insurance. The Housing Commission has \$175 in petty cash on hand.

*Interest Rate Risk* - The Housing Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk* - The Housing Commission's investment policy approves the following securities and deposit accounts: U.S. Treasury bills, U.S. Treasury certificates, notes and bonds, certificate of deposits, commercial business savings accounts, money market accounts, obligations which are lawful investments for fiduciary and trust funds under the jurisdiction of the United States Government, Series E savings bonds and Series H savings bonds.

The Housing Commission shall deposit excess monies in the general fund and all other operating fund accounts in time, savings, or share accounts with banks or other institutions, to the extent that all unsecured deposits or accounts are insured by: the Federal Deposit Insurance Corporation(FDIC), National Credit Union Share Insurance Fund(NCUSIF), or State Insurance plans which are approved by the United States Comptroller of the currency as an eligible depositary of trust funds of National Banks, respectively.

All excess monies over the insured limits of the financial institution or banks, the Housing Commission shall obtain collateralization of excess funds at 100% of the principal value. Such collateralization shall be in the form of U.S. Treasury Notes or Bonds in the name of the Housing Commission held in trust by the financial institution or bank. The Housing Commission may choose collateralization in the following form and percentages:

- |                                     |   |          |
|-------------------------------------|---|----------|
| 1. U.S. Treasury Notes              | - | 100%; or |
| 2. U.S. Treasury Notes and/or Bonds | - | 75% and  |
| 3. Mortgage Backed Securities       | - | 25%      |

In any such case the collateralization shall be no less than 100% of value of the funds in all accounts. The financial institution shall provide a statement of the collateralization at a minimum once every quarter to the Housing Commission.

The Housing Commission has no investment policy that would further limit its investment choices.

*Concentration of Credit Risk* - The Housing Commission places no limit on the amount the Housing Commission may invest in any one issuer. All of the Housing Commission's investments are reported in the Enterprise Fund.

A reconciliation of cash as shown on the combined statement of net assets follows:

Cash on hand	\$ 175
Carrying amount of deposits	173,913
Investments	-
Total	<u>\$ 174,088</u>
Cash and cash equivalents:	
Enterprise activities	\$ 206,594
Enterprise activities - checks written in excess of deposits	<u>( 32,506)</u>
Total	<u>\$ 174,088</u>

**NOTE 3: RECEIVABLES AND PAYABLES**

**Tenant Accounts Receivable**

Tenant accounts receivable are recorded at gross amount and reduced by the estimated amount uncollectible. At March 31, 2005, the receivables were \$16,129 with \$8,821 estimated as uncollectible. Bad debt expense was \$41,168.

**Accounts Receivables/Payables- HUD**

Amounts due to HUD represents funding due from the Housing Commission for actual expenses for the programs financed. Balances at March 31, 2005 were as follows:

Housing Choice Voucher Program	<u>\$ 83,640</u>
--------------------------------	------------------

Amounts due from HUD represents funding due the Housing Commission for actual expenses for the programs financed. Balances at March 31, 2005 were as follows:

Housing Choice Voucher Program	<u>\$ 29,263</u>
--------------------------------	------------------

**Inter-fund Receivables, Payables, and Transfers**

Interfund receivables and payables are recorded as "due from other programs" and "due to other programs".

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Housing Choice Vouchers	\$ 121,496	Low Rent Program	\$ 121,858
Capital Fund Program	<u>362</u>		
	<u>\$ 121,858</u>		<u>\$ 121,858</u>

The capital fund program transferred \$94,347 to the Low Rent Program during the fiscal year ended March 31, 2005.



#### NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended March 31, 2005 was as follows:

	<u>Balance</u> <u>03/31/04</u>	<u>Additions/Retirements/</u> <u>Transfers</u>	<u>Transfers</u>	<u>Balance</u> <u>03/31/05</u>
<b>Low Rent Program</b>				
Land	\$1,402,031	\$	\$	\$1,402,031
Buildings	7,396,484		103,000	7,293,484
Furniture, equip. & machinery - dwellings	143,014		143,014	
Furniture, equip. & machinery - administration	200,039		81,566	118,473
Building improvements	<u>7,783,618</u>	<u>639,595</u>		<u>8,423,213</u>
	16,925,186	<u>\$ 639,595</u>	<u>\$ 327,580</u>	17,237,201
Less accumulated depreciation	(11,041,868)	<u>\$ (743,582)</u>	<u>\$ 327,580</u>	(11,457,870)
Total	<u>\$5,883,318</u>			<u>\$5,779,331</u>
<b>Capital Fund Program</b>				
Furniture, equip. & machinery - administration	\$ 75,830	\$	\$	\$ 75,830
Construction in progress	<u>1,277,447</u>	<u>33,693</u>		<u>1,311,140</u>
	1,353,277	33,693		1,386,970
Less accumulated depreciation	( 7,583)	( 29,542)		( 37,125)
improvements	<u>\$1,345,694</u>	<u>\$ 4,151</u>	<u>\$</u>	<u>\$1,349,845</u>
<b>Combined Totals</b>				<u>\$7,129,176</u>

#### NOTE 5: CONTRIBUTED CAPITAL

Changes in invested in capital assets (formerly contributed capital) in the enterprise fund type for the year ended March 31, 2005, consist of the following:

	<u>Invested in</u> <u>Capital Assets</u>
Balance, beginning	\$ 7,229,012
Investment in fixed assets, net of depreciation paid for from operations net of depreciation, not included in contributed capital	( 99,836)
Balance, ending	<u>\$ 7,129,176</u>

These reclassifications are investments in fixed assets, net of depreciation paid for from operations, not included in contributed capital.

#### **NOTE 6: OTHER INFORMATION**

##### **A. Pension Plan**

As March 1, 2005, the Housing Commission became a member of the Municipal Employees Retirement System of Michigan (MERS). The MERS actuary, has determined the monthly-required employer contribution for the remainder of 2005 for the General Division to be 7.40%. Information provided in the adopted resolutions indicates that the employee contribution shall be 0% of payroll effective March 1, 2005. These stated contributions shall remain in effect until such time that benefit improvements are adopted, or the next Annual Actuarial Valuation dictates a change.

##### **B. Current Vulnerability Due to Certain Concentrations**

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice to inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

##### **C. Risk Management and Litigation**

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which it obtains coverage from commercial companies. The Housing Commission has had no settled claims resulting from these risks that exceed their commercial coverage in the current year or the three prior fiscal years.

##### **D. Implementation of New Accounting Standard**

As of and for the year ended March 31, 2005, the Housing Commission implemented GASB Statement Number 34 - *Basic Financial Statements - and Management's Discussion and Analysis - State and Local Governments*. The more significant changes required by the standard include a Management Discussion and Analysis; government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting; fund financial statements, consisting of a series of statements that focus on a government's major funds; and schedules to reconcile the fund financial statements to the government-wide financial statements.

**E. Prior Period Adjustments, Equity Transfers and Correction of Errors**

Low Rent Program

Transfer CFP 501-2000 to low rent \$ 639,595

Housing Choice Voucher Program

FYE 3/34/04 HUD adjustments to 52681 \$ ( 700)

Capital Fund Program

Transfer CFP 501-2000 to low rent \$(639,595)

**NOTE 7: SEGMENT INFORMATION**

The Housing Commission maintains one Enterprise Fund that includes four separate programs which provide housing assistance and grant programs. Segment information for the year ended March 31, 2005, was as follows:

	<u>Low Rent Program</u>	<u>Capital Fund Program</u>	<u>Housing Choice Voucher Program</u>
<b>Condensed Statement of Net Assets</b>			
Current assets	\$ 185,870	\$ 362	\$ 150,759
Restricted cash	16,340		
Property & equipment	<u>5,779,331</u>	<u>1,349,845</u>	
Total assets	<u>\$ 5,981,541</u>	<u>\$ 1,350,207</u>	<u>\$ 150,759</u>
Current liabilities	\$ 356,559	\$ 362	\$ 83,831
Noncurrent liabilities	<u>9,206</u>		
Total liabilities	<u>365,765</u>	<u>362</u>	<u>83,831</u>
Net assets:			
Invested in capital assets	5,779,331	1,349,845	
Restricted net assets	16,340		
Unrestricted net assets	<u>( 179,895)</u>		<u>83,831</u>
Total net assets	<u>5,615,776</u>	<u>1,349,845</u>	<u>83,831</u>
Total liabilities & net assets	<u>\$ 5,981,541</u>	<u>\$ 1,350,207</u>	<u>\$ 150,759</u>

	Low Rent Program	Capital Fund Program	Housing Choice Voucher Program
<b>Condensed Statement of Revenues, Expenses, and Changes in Net Assets</b>			
Dwelling and nondwelling rents	\$ 685,571	\$	\$
Depreciation	( 743,582)	( 29,542)	
Other operating expenses	<u>(1,553,974)</u>	<u>( 262,508)</u>	<u>(218,431)</u>
Operating(loss)	<u>(1,611,985)</u>	<u>( 292,050)</u>	<u>(218,431)</u>
Nonoperating revenues:			
Investment earnings	2,483		12
Other income	48,089		
Gain on sale of fixed assets	49,186		
Operating grants	611,467	356,855	229,147
Capital grants		673,288	
Operating transfers	<u>94,347</u>	<u>( 94,347)</u>	
Change in net assets	<u>( 806,413)</u>	<u>643,746</u>	<u>10,728</u>
Prior period adjustments	639,595	( 639,595)	( 700)
Beginning net assets	<u>5,782,594</u>	<u>1,345,694</u>	<u>56,900</u>
Ending net assets	<u>\$ 5,615,776</u>	<u>\$ 1,349,845</u>	<u>\$ 66,928</u>

<b>Condensed Statement of Cash Flows</b>			
Net cash provided(used) by:			
Operating activities	\$ ( 890,660)	\$ ( 262,508)	\$ (218,240)
Noncapital financing activities	831,930	262,508	181,067
Capital and related financing activities	49,186		
Investing activities	<u>( 13,857)</u>		<u>12</u>
Net increase (decrease)	<u>( 23,401)</u>		<u>( 37,161)</u>
Beginning cash and cash equivalents	<u>181,149</u>		<u>37,161</u>
Ending cash and cash equivalents	<u>\$ 157,748</u>	<u>\$</u>	<u>\$</u>

**NOTE 8: SCATTER SITE HOME PURCHASES**

During the fiscal year ended March 31, 2005, the Housing Commission sold two scatter site homes as follows:

2125 Peck Street	May 28, 2004	\$27,763
2516 Sanford Street	February 15, 2005	<u>21,423</u>
		<u>\$49,186</u>

These monies were deposited in a savings account at Comerica Bank (account #1840357527). The balance in this savings account as of March 31, 2005 is \$49,594.67.

SUPPLEMENTARY INFORMATION

MUSKEGON HEIGHTS HOUSING COMMISSION  
**COMBINING STATEMENT OF NET ASSETS**  
 March 31, 2005

=====

	C-3018 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
<b>ASSETS</b>		
Current assets:		
Cash	\$ 157,748	\$
Accounts receivable-HUD	16,129	
Accounts receivable-tenants	( 8,821)	
Allowance for bad debts	20,314	
Prepaid expenses	500	
Inventories		
Due from other programs		<u>362</u>
Total current assets	<u>185,870</u>	<u>362</u>
Restricted cash	<u>16,340</u>	
Property, plant, and equipment:		
Land	1,402,031	
Buildings	7,293,484	
Equipment	118,473	75,830
Building improvements	8,423,213	
Construction in progress		<u>1,311,140</u>
	<u>17,237,201</u>	<u>1,386,970</u>
Less accumulated depreciation	<u>(11,457,870)</u>	<u>( 37,125)</u>
Net property, plant and equipment	<u>5,779,331</u>	<u>1,349,845</u>
Total Assets	<u>\$ 5,981,541</u>	<u>\$1,350,207</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$ 29,263	\$ 157,748
	29,263
	16,129
	( 8,821)
	20,314
	500
<u>121,496</u>	<u>121,858</u>
<u>150,759</u>	<u>336,991</u>
<u>          </u>	<u>16,340</u>
	1,402,031
	7,293,484
	194,303
	8,423,213
<u>          </u>	<u>1,311,140</u>
<u>          </u>	18,624,171
<u>          </u>	<u>(11,494,995)</u>
<u>          </u>	<u>7,129,176</u>
<u>\$ 150,759</u>	<u>\$ 7,482,507</u>



MUSKEGON HEIGHTS HOUSING COMMISSION  
**COMBINING STATEMENT OF NET ASSETS (CONTINUED)**  
 March 31, 2005

=====

	C-3018 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
<b>LIABILITIES and NET ASSETS</b>		
Current liabilities:		
Bank overdraft	\$	\$
Accounts payable	166,445	
Tenant security deposit liability	38,886	
Accrued expenses	26,042	
Deferred revenues		362
Other current liabilities	3,328	
Due to other programs	<u>121,858</u>	
Total current liabilities	356,559	362
Noncurrent liabilities:		
Accrued compensated absences	<u>9,206</u>	
Total liabilities	<u>365,765</u>	<u>362</u>
Net Assets:		
Invested in capital assets	5,779,331	1,349,845
Restricted net assets	16,340	
Unrestricted net assets	<u>( 179,895)</u>	
Total net assets	<u>5,615,776</u>	<u>1,349,845</u>
Total Liabilities and Net Assets	<u>\$ 5,981,541</u>	<u>\$1,350,207</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$ 191	\$ 191
83,640	250,085
	38,886
	26,042
	362
	3,328
	<u>121,858</u>
83,831	440,752
	<u>9,206</u>
<u>83,831</u>	<u>449,958</u>
	7,129,176
	16,340
<u>66,928</u>	<u>( 112,967)</u>
<u>66,928</u>	<u>7,032,549</u>
<u>\$ 150,759</u>	<u>\$ 7,482,507</u>

MUSKEGON HEIGHTS HOUSING COMMISSION  
**COMBINING STATEMENT OF REVENUES, EXPENSES,  
 AND CHANGES IN NET ASSETS**  
 Year Ended March 31, 2005  
 =====

	C-3018 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
<b>OPERATING REVENUES:</b>		
Dwelling rent	\$ 682,140	\$
Nondwelling rent	<u>3,431</u>	
Total operating revenues	<u>685,571</u>	
<b>OPERATING EXPENSES:</b>		
Administration	254,733	262,508
Tenant services	14,645	
Utilities	395,838	
Ordinary maintenance and operation	668,362	
General expenses	208,686	
Extraordinary maintenance	11,710	
Housing assistance payments		
Depreciation	<u>743,582</u>	<u>29,542</u>
Total operating expenses	<u>2,297,556</u>	<u>292,050</u>
Operating income (loss)	<u>( 1,611,985)</u>	<u>( 292,050)</u>
<b>NONOPERATING REVENUES:</b>		
Operating transfers in (out)	94,347	( 94,347)
Investment interest income	2,483	
Other income	48,089	
Gain on sale of fixed assets	49,186	
Capital grants		673,288
Operating grants	<u>611,467</u>	<u>356,855</u>
Total nonoperating revenues	<u>805,572</u>	<u>935,796</u>
Change in net assets	( 806,413)	643,746
Prior period adjustments, equity transfers and correction of errors	639,595	( 639,595)
Net assets, beginning	<u>5,782,594</u>	<u>1,345,694</u>
Net assets, ending	<u>\$ 5,615,776</u>	<u>\$1,349,845</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$	\$ 682,140
	<u>3,431</u>
	<u>685,571</u>
14,792	532,033
	14,645
	395,838
	668,362
283	208,969
	11,710
203,356	203,356
	<u>773,124</u>
<u>218,431</u>	<u>2,808,037</u>
<u>( 218,431)</u>	<u>( 2,122,466)</u>
12	2,495
	48,089
	49,186
	673,288
<u>229,147</u>	<u>1,197,469</u>
<u>229,159</u>	<u>1,970,527</u>
10,728	( 151,939)
( 700)	( 700)
<u>56,900</u>	<u>7,185,188</u>
<u>\$ 66,928</u>	<u>\$ 7,032,549</u>

MUSKEGON HEIGHTS HOUSING COMMISSION  
**COMBINING STATEMENT OF CASH FLOWS**  
Year Ended March 31, 2005

	C-3018 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from dwelling and nondwelling rents	\$ 725,487	\$
Cash payments to other suppliers of goods and services	(1,120,303)	( 48,880)
Cash payments to employees for services	( 394,259)	( 213,628)
Cash payments in lieu of taxes	<u>( 101,585)</u>	<u></u>
Net cash (used) by operating activities	<u>( 890,660)</u>	<u>( 262,508)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Tenant security deposits	( 3,065)	
Due from/to other funds	81,092	( 10,581)
Operating transfers in (out)	94,347	( 94,347)
Operating grants	611,467	367,436
Other revenue	<u>48,089</u>	<u></u>
Net cash provided by noncapital financing activities	<u>831,930</u>	<u>262,508</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Gain on sale of fixed assets	49,186	
Capital grants		673,288
Payments for capital acquisitions	<u></u>	<u>( 673,288)</u>
Net cash provided by capital and related financing activities	<u>49,186</u>	<u></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Restricted cash	( 16,340)	
Receipts of interest and dividends	<u>2,483</u>	<u></u>
Net cash provided (used) by investing activities	<u>( 13,857)</u>	<u></u>
Net increase(decrease) in cash	( 23,401)	
Cash, beginning	<u>181,149</u>	<u></u>
Cash, ending	<u>\$ 157,748</u>	<u>\$</u>

Housing Choice Vouchers 14.871	Drug Elimination Program 14.854	Totals
\$	\$	\$ 725,487
( 206,169)		( 1,375,352)
( 12,071)		( 619,958)
		( 101,585)
( 218,240)		( 1,371,408)
13,722	( 84,233)	( 3,065)
167,345	84,233	1,230,481
		48,089
181,067		1,275,505
		49,186
		673,288
		( 673,288)
		49,186
12		( 16,340)
		2,495
12		( 13,845)
( 37,161)		( 60,562)
37,161		218,310
\$	\$	\$ 157,748

MUSKEGON HEIGHTS HOUSING COMMISSION  
**COMBINING STATEMENT OF CASH FLOWS (CONTINUED)**  
 Year Ended March 31, 2005

=====

C-3018	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

**RECONCILIATION OF CASH AND CASH  
 EQUIVALENTS PER STATEMENT OF CASH  
 FLOWS TO THE BALANCE SHEET:**

Cash and cash equivalents per balance sheet	\$ 157,748	\$
Restricted cash	<u>16,340</u>	<u></u>
	<u>\$ 174,088</u>	<u>\$</u>

**SCHEDULE RECONCILING OPERATING INCOME  
 TO NET CASH FLOW FROM OPERATING  
 ACTIVITIES:**

Operating income(loss)	\$ ( 1,611,985)	\$ ( 292,050)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:		
Depreciation	743,582	29,542
Bad debt allowance	( 30,028)	
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable-tenants	39,916	
Prepaid expenses	16,948	
Increase (decrease) in liabilities:		
Bank overdraft		
Accounts payable	36,145	
Accrued compensated absences	( 12,626)	
Accounts payable-PILOT	<u>( 72,612)</u>	<u></u>
Net cash (used) by operating activities	<u>\$ ( 890,660)</u>	<u>\$ ( 262,508)</u>

Housing  
Choice  
Vouchers  
14.871

Drug  
Elimination  
Program  
14.854

Totals

\$

\$

\$ 157,748  
16,340

\$

\$

\$ 174,088

\$ ( 218,431) \$

\$ ( 2,122,466)

773,124  
( 30,028)

39,916  
16,948

191

191  
36,145  
( 12,626)  
( 72,612)

\$ ( 218,240)

\$

\$ ( 1,371,408)



MUSKEGON HEIGHTS HOUSING COMMISSION  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS**  
Year Ended March 31, 2005

=====

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year	<u>Federal Grantor</u>	<u>CFDA No.</u>	<u>Expenditures</u>
	<u>U.S. Department of HUD</u>		
	<u>Public and Indian Housing Nonmajor - Direct Program</u>		
2005	Low Rent Public Housing	14.850	\$ 611,467
	<u>Public and Indian Housing Major - Direct Program</u>		
2005	Capital Fund Program	14.872	1,030,143
	<u>Low Income Public Housing Nonmajor Direct Program</u>		
2005	Housing Choice Vouchers	14.871	<u>229,147</u>
	Total		<u>\$1,870,757</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

**NOTE 1: Significant Accounting Policies**

The schedule of federal awards has been prepared on the accrual basis of accounting.

CFDA = Catalog of Federal Domestic Assistance

## MUSKEGON HEIGHTS HOUSING COMMISSION

## FINANCIAL DATA SCHEDULE

Year Ended March 31, 2005

=====

FDS Line Item No.		C-3018 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	<b>ASSETS</b>		
	Current Assets:		
	Cash:		
111	Cash-unrestricted	\$ 157,748	\$
112	Cash-restricted	<u>16,340</u>	
100	Total cash	<u>174,088</u>	
	Receivables:		
122	A/R-HUD other projects		
126	A/R-tenants-dwelling rents	16,129	
126.1	Allowance for doubtful accounts - dwelling rents	<u>( 8,821)</u>	
120	Total receivables, net of allowance for doubtful accounts	<u>7,308</u>	
	Other Current Assets:		
142	Prepaid expenses and other assets	20,314	
143	Inventories	500	
144	Interprogram due from		<u>362</u>
	Total other current assets	<u>20,814</u>	<u>362</u>
150	Total current assets	<u>202,210</u>	<u>362</u>
	Noncurrent Assets:		
	Fixed Assets:		
161	Land	1,402,031	
162	Buildings	7,293,484	
164	Furn, equip & mach-admin.	118,473	75,830
165	Building improvements	8,423,213	
166	Accumulated depreciation	(11,457,870)	( 37,125)
167	Construction in progress		<u>1,311,140</u>
160	Total fixed assets, net of accumulated depreciation	<u>5,779,331</u>	<u>1,349,845</u>
180	Total noncurrent assets	<u>5,779,331</u>	<u>1,349,845</u>
190	Total Assets	<u>\$ 5,981,541</u>	<u>\$1,350,207</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$	\$ 157,748
	<u>16,340</u>
	<u>174,088</u>
29,263	29,263
	16,129
	( <u>8,821</u> )
<u>29,263</u>	<u>36,571</u>
	20,314
	500
<u>121,496</u>	<u>121,858</u>
<u>121,496</u>	<u>142,672</u>
<u>150,759</u>	<u>353,331</u>
	1,402,031
	7,293,484
	194,303
	8,423,213
	(11,494,995)
	<u>1,311,140</u>
	<u>7,129,176</u>
	<u>7,129,176</u>
<u>\$ 150,759</u>	<u>\$ 7,482,507</u>

MUSKEGON HEIGHTS HOUSING COMMISSION  
**FINANCIAL DATA SCHEDULE (CONTINUED)**  
 Year Ended March 31, 2005

FDS Line Item No.		C-3018 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
<b>LIABILITIES and NET ASSETS</b>			
	Liabilities:		
	Current Liabilities:		
311	Bankoverdraft	\$	\$
312	Accounts payable>=90 days	91,223	
322	Accrued compensated absences	26,042	
331	Accounts payable-HUD PHA programs		
333	Accounts payable-other government	75,222	
341	Tenant security deposits	38,886	
342	Deferred revenues		
345	Other current liabilities	3,328	362
347	Interprogram due to	<u>121,858</u>	
310	Total current liabilities	356,559	362
	Noncurrent Liabilities:		
354	Accrued compensated absences	<u>9,206</u>	
300	Total liabilities	<u>365,765</u>	<u>362</u>
	Net Assets:		
508.1	Invested in capital assets	<u>5,779,331</u>	<u>1,349,845</u>
508	Total invested in capital assets	5,779,331	1,349,845
511.1	Restricted net assets	16,340	
512.1	Unrestricted net assets	<u>( 179,895)</u>	
513	Total Net Assets	<u>5,615,776</u>	<u>1,349,845</u>
600	Total Liabilities and Net Assets	<u>\$ 5,981,541</u>	<u>\$1,350,207</u>

Housing  
Choice  
Vouchers  
14.871

Totals

\$ 191 \$ 191  
91,223  
26,042

83,640 83,640

75,222  
38,886  
362  
3,328  
121,858

83,831 440,752

9,206

83,831 449,958

7,129,176

7,129,176

66,928 16,340  
( 112,967)

66,928 7,032,549

\$ 150,759 \$ 7,482,507

MUSKEGON HEIGHTS HOUSING COMMISSION  
**FINANCIAL DATA SCHEDULE (CONTINUED)**  
 Year Ended March 31, 2005

FDS Line Item No.		C-3018 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	<b>Revenue:</b>		
703	Net tenant rental revenue	\$ 682,140	\$
704	Tenant revenue-other	<u>3,431</u>	
705	Total tenant revenue	685,571	
706	HUD PHA grants	611,467	356,855
706.1	Capital grants		<u>673,288</u>
711	Investment income-unrestricted	2,483	
715	Other revenue	48,089	
716	Gain/loss on sale of fixed assets	<u>49,186</u>	
700	Total revenue	<u>1,396,796</u>	<u>1,030,143</u>
	<b>Expenses:</b>		
	Administrative:		
911	Administrative salaries	175,911	25,000
912	Auditing fees		3,080
914	Compensated absences	( 12,626)	
915	Employee benefit contributions - administrative		188,628
916	Other operating-administrative	91,448	<u>45,800</u>
	Tenant Services:		
921	Tenant services-salaries	8,210	
924	Tenant services-other	6,435	
	Utilities:		
931	Water	114,166	
932	Electricity	154,847	
933	Gas	126,825	
	Ordinary maintenance and operation:		
941	Ordinary maint & oper-labor	182,554	
942	Ordinary maint & oper-mat'ls & other	139,676	
943	Ordinary maint & oper-contract costs	331,174	
945	Employee benefit contributions	<u>14,958</u>	
	General expenses:		
961	Insurance premiums	137,595	
962	Other general expenses	950	
963	Payments in lieu of taxes	28,973	
964	Bad debt - tenant rents	<u>41,168</u>	
969	Total operating expenses	<u>1,542,264</u>	<u>262,508</u>

Housing Choice Vouchers 14.871	Totals
\$	\$ 682,140
	<u>3,431</u>
	685,571
229,147	1,197,469
	673,288
12	2,495
	48,089
	<u>49,186</u>
<u>229,159</u>	<u>2,656,098</u>
11,000	211,911
1,420	4,500
	( 12,626)
1,071	189,699
1,301	138,549
	8,210
	6,435
	114,166
	154,847
	126,825
	182,554
	139,676
	331,174
	14,958
	137,595
283	1,233
	28,973
	<u>41,168</u>
<u>15,075</u>	<u>1,819,847</u>

MUSKEGON HEIGHTS HOUSING COMMISSION  
**FINANCIAL DATA SCHEDULE (CONTINUED)**  
 Year Ended March 31, 2005  
 =====

FDS Line Item No.		C-3018 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
970	Excess operating revenue over operating expenses	<u>( 145,468)</u>	<u>767,635</u>
	<b>Expenses continued:</b>		
	Other expenses:		
971	Extraordinary maintenance	11,710	
973	Housing assistance payments		
974	Depreciation expense	<u>743,582</u>	<u>29,542</u>
	Total other expenses	<u>755,292</u>	<u>29,542</u>
900	Total expenses	<u>2,297,556</u>	<u>292,050</u>
	Excess (deficiency) of operating revenue over(under) expenses before other financing sources (uses)	( 900,760)	738,093
	<b>Other Financing Sources(Uses):</b>		
1001	Operating transfers in (out)	<u>94,347</u>	<u>( 94,347)</u>
1000	Excess (deficiency) of operating revenue over(under) expenses	( 806,413)	643,746
1103	Beginning Net Assets	5,782,594	1,345,694
1104	Prior period adjustments, equity transfers and correction of errors	<u>639,595</u>	<u>( 639,595)</u>
	Ending Net Assets	<u>\$5,615,776</u>	<u>\$1,349,845</u>



Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
<u>214,084</u>	<u>836,251</u>
	11,710
203,356	203,356
<u>203,356</u>	<u>773,124</u>
<u>218,431</u>	<u>988,190</u>
	<u>2,808,037</u>
10,728	( 151,939)
<u>10,728</u>	<u>( 151,939)</u>
56,900	7,185,188
( 700)	( 700)
<u>\$ 66,928</u>	<u>\$ 7,032,549</u>

**Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an  
Audit of Financial Statements Performed in Accordance  
with Government Auditing Standards**

Board of Housing Commissioners  
Muskegon Heights Housing Commission  
Muskegon Heights, Michigan

I have audited the financial statements of the business-type activities of the Muskegon Heights Housing Commission, Michigan, (Housing Commission) as of and for the year ended March 31, 2005, which collectively comprise the Housing Commission's basic financial statements and have issued my report thereon dated November 4, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing my audit, I considered the Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on

Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an  
Audit of Financial Statements Performed in Accordance  
with *Government Auditing Standards*  
Muskegon Heights Housing Commission  
Page Two

**Compliance and Other Matters (continued)**

compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, I noted certain matters that I reported to management of the Housing Commission, in a separate letter dated November 4, 2005.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Barry E. Tardiff, CPA, PC*

November 4, 2005

**Report on Compliance with Requirements  
Applicable To Each Major Program and  
Internal Control over Compliance  
in Accordance with OMB Circular A-133**

Board of Housing Commissioners  
Muskegon Heights Housing Commission  
Muskegon Heights, Michigan

**Compliance**

I have audited the compliance of the Muskegon Heights Housing Commission, Michigan, (Housing Commission) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended March 31, 2005. The Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the Housing Commission's compliance with those requirements.

Report on Compliance with Requirements  
Applicable to Each Major Program and  
Internal Control Over Compliance in  
Accordance with OMB Circular A-133  
Muskegon Heights Housing Commission  
Page Two

**Compliance (continued)**

In my opinion, the Housing Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended March 31, 2005.

**Internal Control Over Compliance**

The management of the Housing Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered the Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses. I have noted other matters involving the internal control over financial reporting that I have reported to management of the Housing Commission in a separate letter dated November 4, 2005.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Samy S. Sandell, CPA, PC*

November 4, 2005

MUSKEGON HEIGHTS HOUSING COMMISSION  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
 March 31, 2005  
 =====

**A. Summary of Audit Results**

Financial Statements

1. Type of Auditor's Report issued: Unqualified
2. Internal control over financial reporting:
  - a. Material weakness identified No
  - b. Reportable condition identified that is not a material weakness No
3. Noncompliance material to financial statements: No

Federal Awards

1. Internal control over major programs:
  - a. Material weakness identified No
  - b. Reportable condition that is not a material weakness No
2. Type of auditor's report issued on compliance for major programs Unqualified
3. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133 No
4. Identification of major programs:

CFDA Number	Federal Program	Amount Expended	Major Program	Compliance Requirement	Questioned Costs	Audit Finding
14.850	Low Rent Public Housing	\$ 611,467	No	O	N/A	N/A
14.872	Capital Fund Program	1,030,143	Yes	O	N/A	N/A
14.871	Housing Choice Vouchers	<u>229,147</u>	No	O	N/A	N/A
<b>Total</b>		<u>\$1,870,757</u>				

5. Dollar threshold used to distinguish between type A and type B programs \$300,000
6. Auditee qualified as low-risk auditee? Yes

MUSKEGON HEIGHTS HOUSING COMMISSION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
March 31, 2005

=====

B.	Financial Statement Findings	None
C.	Federal Award Findings and Questioned Costs	None

MUSKEGON HEIGHTS HOUSING COMMISSION  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
March 31, 2005

=====

NONE



MUSKEGON HEIGHTS HOUSING COMMISSION  
ADJUSTING JOURNAL ENTRIES  
MARCH 31, 2005

=====

<u>Account Number</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
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LOW RENT PROGRAM:

There were no adjusting journal entries.

MUSKEGON HEIGHTS HOUSING COMMISSION  
INDEPENDENT AUDITORS' REPORTS  
ON COMMUNICATIONS WITH THE  
AUDIT COMMITTEE/BOARD OF COMMISSIONERS  
AND  
MANAGEMENT ADVISORY COMMENTS

MARCH 31, 2005

MUSKEGON HEIGHTS HOUSING COMMISSION  
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MARCH 31, 2005

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**Barry E. Gaudette, CPA, P.C.**

CERTIFIED PUBLIC ACCOUNTANT

1107 East Eighth Street  
Traverse City, Michigan 49686  
(231) 946-8930  
Fax (231) 946-1377

**INDEPENDENT AUDITORS' REPORT ON  
COMMUNICATIONS WITH THE AUDIT COMMITTEE/  
BOARD OF COMMISSIONERS**

To the Board of Commissioners  
Muskegon Heights Housing Commission

I have audited the financial statements of the Muskegon Heights Housing Commission ("Housing Commission") as of and for the year ended March 31, 2005, and have issued my report, thereon, dated November 4, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I communicate certain matters to your audit committee or its equivalent. These communications are reported in the following paragraphs.

**Auditors' Responsibilities Under Auditing Standards Generally Accepted in the United States of America** - In planning and performing my audit of the financial statements, I considered your internal control in order to determine my auditing procedures for purposes of expressing my opinion on the financial statements and not to provide assurance on your internal control. Also, an audit conducted under auditing standards generally accepted in the United States of America is designed to obtain a reasonable, rather than absolute, assurance about the financial statements.

**Significant Accounting Policies** - The significant accounting policies used in the preparation of your financial statements are discussed in Note 1 to the financial statements. There was not any audit adjusting journal entries and no controversial accounting issues.

**Management Judgments and Accounting Estimates** - Significant management judgments and accounting estimates are disclosed in the notes to the financial statements.

**Other Information in Documents Containing Audited Financial Statements** - All the information included in the financial statements document has been audited and my responsibilities are addressed in the Independent Auditors' Report.

**INDEPENDENT AUDITORS' REPORT ON COMMUNICATIONS WITH THE  
AUDIT COMMITTEE - CONTINUED**

**Audit Adjustments** - For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in my judgment, may not have been detected except through my auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Housing Commission's financial reporting process (that is, cause future financial statements to be materially misstated). The attached audit adjustments, in my judgment, indicate matters that could have a significant effect on the Housing Commission's financial reporting process (see adjusting entries on page 5).

**Disagreements With Management** - For purposes of this letter, professional accounting standards define disagreement with management as a matter concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. I am pleased to report that no such disagreements arose during the audit.

**Consultations With Other Accountants** - To my knowledge, management has not consulted with other accountants regarding auditing and accounting matters.

**Major Issues Discussed With Management Prior to Retention** - There was no discussions regarding the application of accounting principles or auditing standards with management prior to my retention as your auditor.

**Difficulties Encountered in Performing the Audit** - There were no difficulties encountered in performing the audit. The staff was very cooperative and helpful.

This report is intended solely for the information and use of the audit committee or its equivalent and management and is not intended to be and should not be used by anyone other than these specified parties.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire more information on the above communications, I would welcome the opportunity to discuss them with you.

*Barry E. Standell, CPA, PC*

November 4, 2005

**Barry E. Gaudette, CPA, P.C.**

CERTIFIED PUBLIC ACCOUNTANT

1107 East Eighth Street  
Traverse City, Michigan 49686  
(231) 946-8930  
Fax (231) 946-1377

**INDEPENDENT AUDITORS' REPORT ON  
MANAGEMENT ADVISORY COMMENTS**

To the Board of Commissioners  
Muskegon Heights Housing Commission

I have audited the financial statements of the Muskegon Heights Housing Commission ("Housing Commission") as of and for the year ended March 31, 2005, and have issued my report, thereon, dated November 4, 2005. I have also issued compliance reports and reports on the internal control in accordance with *Government Auditing Standards*. These reports disclosed no material instances of noncompliance, weaknesses and reportable conditions.

Other matters involving the Housing Commission's operations and internal control, which came to my attention during the audit, are reported on the following pages as management advisory comments.

I would like to take this opportunity to acknowledge the many courtesies extended to me by the Housing Commission's personnel during the course of my work.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire assistance in implementing any of the following suggestions, I would welcome the opportunity of assisting you in these matters.

*Barry E. Gaudette, CPA, P.C.*

November 4, 2005

MUSKEGON HEIGHTS HOUSING COMMISSION  
MANAGEMENT ADVISORY COMMENTS  
March 31, 2005  
=====

**Check Disbursements**

The Housing Commission currently types check disbursements on a typewriter.

I recommend that software be purchased for the preparation of checks. Not only would this speed up the check preparation process, but would provide another internal control for the disbursement of payments. Also, the account number and purpose of the disbursement should be entered in the memo section of the check stub.

**Filing of Receipts**

The Housing Commission currently accumulates and files separately the deposit tickets, bank receipts, batch printouts and receipt stubs.

I recommend that all of the above be attached and filed together for an improved audit trail.

**Invoice Marking**

The Housing Commission does not put any markings on the invoices after payment.

I recommend that the Housing Commission purchase a "paid" stamp to mark the invoice with after mailing check disbursements. This will help prevent duplicate payments and improve internal controls.

MUSKEGON HEIGHTS HOUSING COMMISSION  
ADJUSTING JOURNAL ENTRIES  
March 31, 2005

=====

<u>Account #</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
LOW RENT			
PROGRAM			

There were no **audit** adjusting journal entries.